

FISCAL IMPACT STATEMENT ON BILL NO. S462
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TO:	The Honorable Hugh Leatherman, Chairman, Senate Finance Committee		
FROM:	Office of State Budget, Budget and Control Board		
ANALYSTS:	Allan Kincaid and Beth Campbell		
DATE:	January 15, 2008	SBD:	2008016

AUTHOR:	Senator Leatherman	PRIMARY CODE CITE:	1-11-703
SUBJECT:	Retiree Health Insurance Trust Fund		

ESTIMATED FISCAL IMPACT ON GENERAL FUND EXPENDITURES:
A Cost to the General Fund (See Below)

ESTIMATED FISCAL IMPACT ON FEDERAL & OTHER FUND EXPENDITURES:
A Cost of Federal and/or Other Funds (See Below)

BILL SUMMARY:

This Bill will add/amend several sections of the Code of Laws of South Carolina, 1976, to account for other post-employment benefits (OPEB) in accordance with new accounting standards issued by the Governmental Accounting Standards Board (GASB). These benefits primarily include medical, prescription drug and dental insurance provided to all eligible state and school district retirees and the basic long-term disability benefits provided to state and school district employees. To comply in part with the new standards, the Bill establishes two trust funds as the method for paying and accounting for retiree health insurance and basic long-term disability income benefit plan premiums. Section 2(H) of the Bill provides that the Board shall annually determine the minimum required contributions to the South Carolina Retiree Health Insurance Trust Fund on an actuarially sound basis in accordance with the new accounting standards issued by the Governmental Accounting Standards Board (GASB).

EXPLANATION OF IMPACT:

Health and Dental Plans – State and School District Retirees

Currently, the State provides other post-employment benefits for retirees on a “pay as you go” basis by adding a payroll surcharge to the employer contribution rates of the South Carolina Retirement System and the Police Officers Retirement System. For the current fiscal year, the Employee Insurance Program (EIP) expects to collect approximately \$243 million from the surcharge.

An analysis of the long-term cost for providing retiree health benefits by the EIP and its actuary resulted in an unfunded actuarial accrued liability of \$10 billion as of July 1, 2006. To fund this \$10 billion unfunded actuarial accrued liability, the EIP and its actuary calculated there should be an annual required contribution of \$777 million assuming a 4.5% investment discount rate. Of this amount, \$521 million represents an annual cost to the General Fund of the State.

Basic Long Term Disability Benefits – Plan

A review of the Plan by the EIP and its actuary indicates there is an unfunded actuarial accrued liability of approximately \$28 million as of June 30, 2006. According to the EIP, the Plan has a cash balance of \$27 million as of December 31, 2007, which is in part available to fund most of the unfunded liability. Therefore, there would be no required change in employer contribution rates to meet the unfunded liability.

Retiree Participation in State Health and Dental Plans

The proposed changes in eligibility of retirees in the state health plan affects employees employed after the enactment of this Bill. One specific change should be noted. Currently, an employee who retires with ten years service credit is eligible for full state subsidy for retiree insurance. The Bill would change this to require an employee who retires must have at least twenty-five years of service credit to receive full state subsidy for retiree insurance and a person who retires with less than twenty-five years of service credit but more than fifteen is eligible for fifty percent state subsidy. Although, there are no immediate savings, over a fifty year period the estimated present value cost of retiree insurance for future hires would drop from \$6.6 billion to \$3.03 billion, a cost savings of \$3.57 billion.

Retirement System Investment Commission

At this time, the agency has not reported that there will be any impact on the General Fund of the State or on federal and/or other funds.

State Treasurer's Office

The Office reports any costs of this Bill will be minimal and would be absorbed by the agency.

LOCAL GOVERNMENT IMPACT:

None.

SPECIAL NOTES:

It should be noted that the General Assembly appropriated a recurring amount of \$47 million and \$16 million in non-recurring funds in the Fiscal Year 2007-08 Appropriation Act pending the creation of an OPEB Trust Fund.

Approved by:

A handwritten signature in black ink that reads "Harry Bell". The signature is written in a cursive, flowing style.

Harry Bell
Assistant Director, Office of State Budget